EX PARTE OR LATE FILED

DOCKET FILE COPY ORIGINAL

EX PARTE

October 31, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

RECEIVED

OCT 31 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: Ex Parte Notice - CC Docket No. 96-45

Dear Mr. Caton;

On October 30, 1996, Al Varner, John Schrotenboer, Linda Kent and Porter Childers representing the United States Telephone Association (USTA) met with Commissioner Julia Johnson of the Florida Public Service Commission and a member of the Federal-State Joint Board, to discuss USTA's position regarding the issues in the Federal-State Joint Board Universal Service proceeding. The attached material was the basis for the presentation and discussion.

The discussion was consistent with USTA's October 3 Ex Parte filing in this proceeding.

Due to late adjournment of the meeting and in accordance with Section 1.1206(a)(1) of the Commission's rules, two copies of this notice are being submitted to the Secretary of the FCC today, the next business day. Please include it in the public record of this proceeding.

Respectfully submitted,

Linda L. Kent
Associate General Counsel

cc: Federal-State Joint Board Service List

No. of Copies rec'd 0+1
List ABCDE

USTA Universal Service Proposal

CC Docket 96-45

Federal-State Joint Board on Universal Service

USTA

Effects of Interconnection Order on Universal Service

- Order eliminated LECs' ability to support LEC network with usage-based access, toll and vertical services revenues (i.e.: traditional support)
- Order mandated pricing requirements that deprive states of ability to maintain current price structure and could require states to bear bulk of the burden of maintaining universal service.
- Order requires LECs to wholesale both services and network components at prices below cost.
- Order permits arbitration between access and local interconnection and unbundled network elements. Arbitration will quickly erode revenues that have traditionally supported universal service.
- As LECs lose customers, the costs for subscribers will rise but their revenue per remaining customer will decline. Thus, previously "subsidizing" customers will become "subsidized" customers.

USTA

Definition

- Voice grade access to public switched network to enable a customer to place and receive calls (loop, switch and transport)
- Touchtone
- Single party residence and business service (includes business and residential lines)
- Access to emergency services 911/E911
- Access to operator services
- Standard white page directory listing
- Access to basic local directory assistance

Cost Standard

- Universal service support should be based upon actual, embedded costs. Types of costs include loop, switch and transport costs (transport costs to be recovered through universal service would not include access or toll transport).
- Costs associated with under-depreciated, embedded plant should be identified and recovered separately.
- TSLRIC and TELRIC are inappropriate for determining universal service support because it fails to provide sufficient support, does not identify all costs associated with providing universal service, and reduces incentives for future capital deployment.

Hatfield Model Should Not Be Used for Universal Service

- Produces results that ignore past LEC investments to implement and maintain the public switched network used to provide universal service.
- Consensus of economists is that the Hatfield Model should not be used for setting prices of network elements or measuring an economic subsidy received by a service.
- Model does not reflect the fact that public network has been constructed over time.
- Model embodies an unrealistic view of the future local exchange market and does not reflect the forward-looking economic costs of an efficient entrant.
- The actual costs of LEC networks, which currently provide universal service and which have already been approved by both state and federal regulators, should be used as the basis for determining universal service support.

USTA

Types of Costs To Be Recovered Through Universal Service

- Universal service support should be based upon actual, embedded costs that are regulated and unseparated.
- Types of costs to be recovered through universal service include 100 percent of loop costs, 100 percent of transport costs assigned to local (does not include access or toll transport) and switching costs, to include 100 percent of line port costs and scaled to switch size as follow:

Switch Size	Costs Recovered Through Universal Service
1-500 Lines	90 percent of total switching costs
501-5,000 Lines	80 percent of total switching costs
Over 5,000 Lines	70 percent of total switching costs

- A proxy model which closes to actuals must be used as a surrogate for actual costs when the universal service area is smaller than a wire center and may be used at the wire center level.

USTA

Universal Service Cost Area

- LECs should have the flexibility to designate either a study area, a wire center or a smaller area as the geographic area over which universal service costs will be measured.
- The universal service cost area may be smaller than the eligible carrier's service area.

Affordability

- The cost of universal service from a customer's perspective must consider the total charge for universal service. The total charge includes both interstate and intrastate prices incurred by the customer when the customer purchases local service.
- The total charge should be treated as a household expenditure expressed as a percentage of median household income in a county to reflect what customers reasonably can expect to pay for service.
- This index is not the determinant of local rates. However, it should be used to determine funding levels from the national fund. Other universal service funding is the responsibility of the states.

National Funding Index

- To determine the amount of funding to be raised at the federal and state levels, a national funding index should be set at 1 percent of county median household income.
- The National Funding Index should be established as follows: Residence Index: 1 percent of county median household income Business Index: 1.5 times the residence amount.
- A floor set a standard deviation below the index and a ceiling set a standard deviation above the index should be specified to better reflect the current nationwide average rate, to better identify the need for Lifeline Assistance and to smooth the volatility of using county median income.

Universal Service Support

- Support is based on the difference between universal service costs for the universal service cost area and the universal service revenues generated by that area.
- Support is provided to eligible carriers that use their own facilities to provide universal service based on individual carrier costs.
- The cost per line and the support per line is calculated annually (unless a proxy is used). When multiple eligible carriers are receiving support in a universal service area, the cost per line should be frozen and the support per line would be capped at the incumbent carrier's level. The cost per line should be recalculated if the definition of universal service changes.
- Support would not be provided for customers served on a resale basis.

Universal Service Support (Continued)

- Transitional support should be available when the proposed universal service plan generates less support than is currently received from USF, Weighted DEM and Long Term Support in addition to support from the proposed plan. Transitional support would be phased down over an eight year period:

Year 1
New plan plus 100% of transitional support amount
Year 2
New plan plus 95% of transitional support amount
Year 3
New plan plus 90% of transitional support amount
Year 4
New plan plus 85% of transitional support amount
Year 5
New plan plus 80% of transitional support amount
Year 6
New plan plus 75% of transitional support amount
Year 7
New plan plus 50% of transitional support amount
Year 8
New plan plus 25% of transitional support amount
Year 9
New plan

- States should be provided with guidelines to make up the difference, if any, between revenue from local rates and revenue at the level of the national funding index through some combination of rates or state universal service fund.

USTA

Funding

- All telecommunications carriers that provide interstate services shall contribute to the fund (this includes, at a minimum, LECs, IXCs, CAPs, CMRS providers, cable TV providers of telephony).
- The funding base should include interstate and intrastate retail revenues.
- The federal funding surcharge = Federal support ÷ Federal funding base.
- All telecommunications carriers contribute an amount equal to the federal funding surcharge times their share of the revenues contained in the funding base.

Funding (Continued)

- The size of the fund could be reduced by increasing interstate and intrastate prices in areas that require support when the total universal service charge is less than the national funding index.
- When universal service costs exceed universal service revenues, federal support will be the lower of:
  - The difference between universal service cost per line and the National Funding Index; or
  - The difference between universal service cost per line and universal service revenue per line.

Fund Recovery Mechanism

- The federal portion of the fund should be recovered by every telecommunications carrier through a surcharge on the customer bill based on the amount of that customer's purchases.

Eligible Carriers

- Eligibility requirements should be the same for any carrier seeking to receive support.
- Eligible carriers would not receive funding for customers served through resale of another carrier's local exchange service.

Implementation

- Existing mechanisms, such as CCL, USF, and weighted DEM may be replaced by support from either the new universal service fund or price rebalancing.
- Interstate and intrastate prices will be reduced to the extent possible to remove implicit support. Interstate and intrastate price reductions will be made on a revenue neutral basis to offset explicit support received from the new federal funding mechanism.
- Examples of price reductions:
  - Interstate: switched access prices (CCL), switching prices (Weighted DEM), EUCL prices (broad geographic averaging), etc.
  - Intrastate: vertical service prices, business line prices, intraLATA toll prices, switched access prices, etc.
- Federal universal service support should be jurisdictionalized interstate and intrastate to determine which prices to lower.

Efficient Long Distance Prices

- Interexchange carriers must match access charge reductions resulting from the removal of implicit support by reducing long distance prices on a dollar-for-dollar basis.

Universal Service Support Estimate

		Millions
1. Universal Service Cost		$ 53,500
2. Universal Service Cost in High Cost Areas		42,200
3. Universal Service Revenues in High Cost Areas		20,700
4. Universal Service Funding	*(Line 2 less line 3)*	21,500
5. Federal Funding Requirement		15,200
6. State Funding Requirement	*(Line 4 less line 5)*	6,300

Note: The funding requirements for Federal and State are based on a National Funding Index of 1% of county median income. The amount could change depending upon the floor and ceiling imposed on the index.

USTA